Washington State Auditor's Office

Troy Kelley

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Financial Statements Audit Report

City of Tumwater

Thurston County

For the period January 1, 2013 through December 31, 2013

Published March 26, 2015

Report No. 1013825

Washington State Auditor
Troy Kelley

March 26, 2015

Mayor and City Council
City of Tumwater
Tumwater, Washington

Report on Financial Statements

Please find attached our report on the City of Tumwater's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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City of Tumwater
Thurston County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Tumwater
Tumwater, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tumwater, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 16, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65*, Items Previously Reported as Assets and Liabilities*.

The City has omitted the management's discussion and analysis information, and information on postemployment benefits other than pensions, that governmental accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 16, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Tumwater
Thurston County
January 1, 2013 through December 31, 2013

Mayor and City Council
City of Tumwater
Tumwater, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tumwater, Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tumwater, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information, and information on postemployment benefits other than pensions, that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 16, 2015

FINANCIAL SECTION

City of Tumwater
Thurston County
January 1, 2013 through December 31, 2013

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TUMWATER

Statement of Net Position - Entity-Wide

December 31, 2013

		GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL
ASSETS						
Cash & Cash Equivalents	$	18,919,203	$	10,745,665	$	29,664,868
Cash With Trustee		951,265		-		951,265
Receivables						
Taxes		912,336		-		912,336
Accounts		189,884		1,155,909		1,345,793
Interfund Loan Receivable		-		1,940,526		1,940,526
Due From Other Governments		887,790		-		887,790
Inventories		10,201		91,504		101,705
Capital Assets (Note1-D-6):						
Historical Artifacts, Land, and Construction in Progress		81,486,475		5,469,686		86,956,161
Other Capital Assets, Net of Depreciation		61,689,512		53,149,520		114,839,032
Restricted Assets						
Cash & Equivalents		2,002		478,006		480,008
Joint Venture		292,439		-		292,439
TOTAL ASSETS	**$**	**165,341,107**	**$**	**73,030,816**	**$**	**238,371,923**
DEFERRED OUTFLOWS OF RESOURCES						
Deferred cost of Refunding	$	50,505	$	131,247		181,752
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**50,505**	**$**	**131,247**	**$**	**181,752**
LIABILITIES						
Vouchers Payable	$	687,495	$	186,635	$	874,130
Payroll Liability Payable		802,692		174,535		977,227
Interfund Loans Payable		244,794		1,695,732		1,940,526
Due to other Governments		-		853,809		853,809
Matured Interest Payable		17,758		58,433		76,191
Compensated Absences Liability		1,231,464		247,362		1,478,826
Deposits Payable		2,002		-		2,002
Long-Term Liabilities (Note 1-D-9)						
Due Within One Year		593,436		560,637		1,154,073
Due in More Than One Year, Net of Premiums/Discounts		6,419,846		3,670,010		10,089,856
TOTAL LIABILITIES	**$**	**9,999,487**	**$**	**7,447,153**	**$**	**17,446,640**
NET POSITION:						
Invested in Capital Assets, Net of Related Debt	$	137,626,249	$	54,519,806	$	192,146,055
Restricted for:						
Capital Projects		5,238,108		-		5,238,108
Debt Service		64,358		478,006		542,364
Public Safety		1,419,163		-		1,419,163
Other Purposes		246,686		-		246,686
Unrestricted Net Position		10,797,561		10,717,098		21,514,659
TOTAL NET POSITION	**$**	**155,392,125**	**$**	**65,714,910**	**$**	**221,107,035**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Activities

For the Year Ended December 31, 2013

Programs	Expenses	Program Revenues: Charges for Services, Fees, Fines, & Forfeitures	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities:							
General Government	$ 1,924,779	$ 1,080,969	$ 214,885	$ -	$ (628,925)		$ (628,925)
Public Safety - Police	8,031,312	253,073	87,881	-	(7,690,357)		(7,690,357)
Public Safety - Fire	5,677,397	2,296,780	142,002	-	(3,238,615)		(3,238,615)
Public Works	4,253,904	1,126	252,740	1,120,666	(2,879,372)		(2,879,372)
Economic Environment	1,556,884	797,949	-	-	(758,935)		(758,935)
Culture & History	212,511	1,039	-	-	(211,472)		(211,472)
Parks & Recreations	1,212,287	142,863	23,199	472,677	(573,547)		(573,547)
Interest on Long-Term Debt	128,161	-	-	-	(128,161)		(128,161)
Total Governmental Activities (See Note 1)	**$ 22,997,235**	**$ 4,573,801**	**$ 720,707**	**$ 1,593,342**	**$ (16,109,384)**	**$ -**	**$ (16,109,384)**
Business-Type Activities:							
Water	$ 3,427,764	$ 3,656,952	$ 123,793	$ 1,430,017		$ 1,782,998	$ 1,782,998
Sewer	6,377,612	5,977,795	2,066	1,013,916		616,165	616,165
Storm Drain	1,487,812	1,563,235	92,891	75,996		244,310	244,310
Golf Course	1,627,409	812,238	47,074	-		(768,097)	(768,097)
Total Business-Type Activities	**$ 12,920,597**	**$ 12,010,220**	**$ 265,824**	**$ 2,519,929**	**$ -**	**$ 1,875,376**	**$ 1,875,376**
Total Governmental and Business-Type Activities	**$ 35,917,832**	**$ 16,584,021**	**$ 986,531**	**$ 4,113,271**	**$ (16,109,384)**	**$ 1,875,376**	**$ (14,234,008)**
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					$ 6,572,598	$ -	$ 6,572,598
Property Taxes, Levied for Debt Service					238,073	-	238,073
Business and Franchise Licenses and Taxes					10,125,340	-	10,125,340
Unrestricted Investment Earnings					33,439	18,215	51,654
Miscellaneous					137,837	-	137,837
Transfers					(697,148)	697,148	0
Total General Revenues and Transfers					$ 16,410,140	$ 715,363	$ 17,125,503
Changes in Net Position					$ 300,755	$ 2,590,739	$ 2,891,494
Net Position - Beginning					$ 155,091,370	$ 63,174,164	$ 218,265,534
Correction of Prior Periods					$ -	$ (49,993)	$ (49,993)
Position - Ending					$ 155,392,125	$ 65,714,910	$ 221,107,035

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Balance Sheet - Governmental Funds

December 31, 2013

	MAJOR GOVERNMENTAL FUNDS				OTHER	TOTAL
	GENERAL FUND	DEVELOPMENT FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
ASSETS						
Cash & Cash Equivalents	$ 7,692,795	$ 5,238,108	$ 63,598	$ 2,785,418	$ 270,280	$ 16,050,200
Cash With Trustee	2,002	-	-	949,263	-	951,265
Receivables						
Taxes	904,290	-	8,046	-	-	912,336
Accounts	184,961	-	-	-	4,923	189,884
Due From Other Governments	834,186	-	759	52,845	-	887,791
TOTAL ASSETS	**$ 9,618,233**	**$ 5,238,108**	**$ 72,403**	**$ 3,787,527**	**$ 275,203**	**$ 18,991,475**
LIABILITIES						
Vouchers Payable	$ 318,834	$ -	$ -	$ 269,285	$ 30,519	$ 618,638
Payroll Liability Payable	765,932	-	-	12,136	-	778,068
Due To Other Funds	-	-	-	-	-	-
Interfund Loans Payable	-	-	-	244,794	-	244,794
Due to other Governments	-	-	-	-	-	-
Deposits Payable	2,002	-	-	-	-	2,002
TOTAL LIABILITIES	**$ 1,086,767**		**$ -**	**$ 526,215**	**$ 30,519**	**$ 1,643,501**
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue- taxes	586,020	-	8,046	-	-	594,066
Unavailable Revenue- court	183,152	-	-	-	-	183,152
TOTAL DEFERRED INFLOWS OF RESOURCES	**$ 769,172**	**$ -**	**$ 8,046**	**$ -**	**$ -**	**$ 777,218**
FUND BALANCES						
Fund Balance:						
Non-spendable	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	1,421,165	5,238,108	64,358	-	244,685	6,968,315
Committed	282,798	-	-	3,261,311	-	3,544,109
Assigned	886,653	-	-	-	-	886,653
Unassigned	5,171,679	-	-	-	-	5,171,679
TOTAL FUND BALANCE	**$ 7,762,294**	**$ 5,238,108**	**$ 64,358**	**$ 3,261,311**	**$ 244,685**	**$ 16,570,756**
TOTAL LIABILITIES AND FUND BALANCES	**$ 9,618,233**	**$ 5,238,108**	**$ 72,403**	**$ 3,787,527**	**$ 275,203**	**$ 18,991,475**

Amounts reported for governmental activities in the Statement of Net Assets differ for the following reasons

TOTAL OF FUND BALANCES FOR ALL GOVERNMENTAL FUNDS (THIS STATEMENT)	$ 16,570,756
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	$ 140,301,699
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	$ 1,069,656
An internal service fund is used to charge for the use of heavy equipment, vehicles, and electronic equipment to the individual funds. The net assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.	$ 5,602,759
Liabilities, including bonds and other debt instruments plus interest, are not due and payable in the current period and therefore are not reported in the funds.	$ (8,152,745)
	$ 155,392,125

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended December 31, 2013

	MAJOR GOVERNMENTAL FUNDS				OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEVELOPMENT FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND		
REVENUES						
Taxes	$ 14,164,422	$ -	$ 240,832	$ 1,451,942	$ 208,729	$ 16,065,924
Licenses & Permits	892,903	-	-	-	-	892,903
Intergovernmental	2,925,973	-	-	207,147	31,897	3,165,018
Charges for Services	1,442,319	1,109,744	-	-	29,477	2,581,541
Fines & Forfeitures	239,772	-	-	-	-	239,772
Miscellaneous	229,630	6,722	634	55,070	726	292,782
TOTAL REVENUES	$ 19,895,019	$ 1,116,466	$ 241,466	$ 1,714,159	$ 270,829	$ 23,237,939
EXPENDITURES						
Current:						
General Government	$ 4,473,603	$ -	$ -	$ -	$ -	$ 4,473,603
Public Safety - Police	4,965,186	-	-	-	47,890	5,013,076
Public Safety - Fire	5,550,243	-	-	-	-	5,550,243
Public Works	1,796,093	-	-	-	-	1,796,093
Economic Environment	1,368,747	-	-	-	111,055	1,479,802
Mental & Physical Health	-	-	-	-	-	-
Culture & History	-	-	-	-	100,408	100,408
Parks & Recreation	1,083,844	-	-	-	-	1,083,844
Debt Service:						
Principal Retirement	$ -	$ -	$ 247,004	$ -	$ -	$ 247,004
Interest & Fiscal Charges	-	-	116,462	885	-	117,346
Capital Outlay						
General Government	$ -	$ -	$ -	$ -	$ -	$ -
Economic Environment	-	-	-	82,142	-	82,142
Public Safety - Police	-	-	-	3,095,042	-	3,095,042
Public Safety - Fire	-	-	-	45,638	-	45,638
Public Works	-	-	-	1,350,781	-	1,350,781
Culture & History	-	-	-	38,811	-	38,811
Parks & Recreation	-	-	-	191,690	-	191,690
TOTAL EXPENDITURES	$ 19,237,716	$ -	$ 363,466	$ 4,804,989	$ 259,352	$ 24,665,522
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 657,303	$ 1,116,466	$ (122,000)	$ (3,090,830)	$ 11,477	$ (1,427,584)
OTHER FINANCING SOURCES (USES)						
Transfers In	$ 401,104	$ -	$ 75,062	$ 1,149,204	$ -	$ 1,625,370
Proceeds of Capital Leases & Installment Purchases	-	-	-	3,990,396	-	3,990,396
Sale of Capital Assets	9,800	-	-	-	-	9,800
Transfers Out	(557,179)	(745,246)	-	(542,479)	(6,996)	(1,851,900)
TOTAL OTHER FINANCING SOURCES (USES)	$ (146,274)	$ (745,246)	$ 75,062	$ 4,597,121	$ (6,996)	$ 3,773,666
NET CHANGE IN FUND BALANCES	$ 511,029	$ 371,220	$ (46,938)	$ 1,506,291	$ 4,481	$ 2,346,083
PLUS: FUND BALANCES - BEGINNING	$ 7,251,266	$ 4,866,888	$ 111,296	$ 1,755,020	$ 240,204	$ 14,224,673
FUND BALANCES - ENDING	$ 7,762,294	$ 5,238,108	$ 64,358	$ 3,261,311	$ 244,685	$ 16,570,756

Amounts reported for governmental activities in the Statement of Activities differ for the following reasons:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (THIS STATEMENT)	$	2,346,083
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. In addition, it includes the net effect of miscellaneous transactions involving capital assets as a change in net assets for the current period (i.e. sales, trades, donations, and changes in equity in a joint venture). These changes are reported as Miscellaneous General Government Income in the Statement of Activities.	$	1,962,644
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund when deferred. This is the amount by which increases in these deferred revenues exceed reductions. Property tax and sales tax that is deferred is included in General Revenues under the appropriate classifications. Investment interest income is included in the General Revenues under Unrestricted Investment Earnings.	$	3,248
Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceed proceeds in the current period. Also included is matured interest payable on bonds reported in the Statement of Activity that does not require the use of current resources and therefore is not reported as expenditures in governmental funds.	$	(4,281,178)
An internal service fund is used to charge costs for the use of heavy equipment, vehicles, and electronic equipment to individual funds. The net revenue of the internal service fund is included in the governmental activities programs in the Statement of Activities as a reduction of expenses.	$	269,958
CHANGE IN NET ASSETS FOR GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	**$**	**300,755**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Net Position - Proprietary Funds

December 31, 2013

	MAJOR ENTERPRISE FUNDS *		TOTAL	INTERNAL
	UTILITIES FUND	GOLF COURSE FUND	ENTERPRISE FUNDS	SERVICE FUNDS
ASSETS				
CURRENT ASSETS				
Cash & Cash Equivalents	$ 10,590,436	$ 155,229	$ 10,745,665	$ 2,871,005
Receivables				
Accounts	1,140,783	15,126	1,155,909	-
Interfund Loan Receivable	1,940,526	-	1,940,526	-
Due From Other Governments	-	-	-	-
NON-CURRENT ASSETS	-	-	-	-
Inventories	34,972	56,533	91,504	10,201
Fixed Assets, Net	54,962,582	3,656,624	58,619,206	2,874,287
Restricted Assets	-	-	-	-
Cash & Equivalents	478,006	-	478,006	-
Investments (Market Value)	-	-	-	-
TOTAL ASSETS	**$ 69,147,305**	**$ 3,883,511**	**$ 73,030,816**	**$ 5,755,494**
DEFERRED OUTFLOWS OF RESOURCES				
Deferred cost of Refunding	$ 53,056	$ 78,191	$ 131,247	$ -
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$ 53,056**	**$ 78,191**	**$ 131,247**	**$ -**
LIABILITIES				
CURRENT LIABILITIES				
Vouchers Payable	$ 107,538	$ 79,097	$ 186,635	$ 68,858
Payroll Liability Payable	151,119	23,416	174,535	24,624
Interfund Loans Payable	-	1,695,732	1,695,732	-
Due to other Governments	853,809	-	853,809	-
Matured Interest Payable	2,327	56,106	58,433	-
Compensated Absences Payable	214,842	32,520	247,362	59,253
Current Portion of Long Term Debt	269,730	290,908	560,637	-
NON-CURRENT LIABILITIES				
Long Term Liabilities (Net of Amortized Discount)	410,522	3,259,488	3,670,010	-
TOTAL LIABILITIES	**$ 2,009,887**	**$ 5,437,266**	**$ 7,447,153**	**$ 152,734**
NET POSITION				
Invested in Capital Assets, Net of Related Debt	$ 54,335,386	$ 184,419	$ 54,519,806	$ 2,874,287
Restricted for Debt Service	478,006	-	478,006	-
Unrestricted	12,377,082	(1,659,984)	10,717,098	2,728,472
TOTAL NET POSITION	**$ 67,190,474**	**$ (1,475,564)**	**$ 65,714,910**	**$ 5,602,759**

*** ALL ENTERPRISE FUNDS ARE MAJOR FUNDS**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Revenue, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended December 31, 2013

	MAJOR ENTERPRISE FUNDS *							
		UTILITIES FUND		GOLF COURSE FUND		TOTAL ENTERPRISE FUNDS		INTERNAL SERVICE FUNDS
OPERATING REVENUES								
Charges for Services	$	11,197,981	$	812,238	$	12,010,219	$	1,963,341
Other Operating Revenue		218,751		47,073		265,824		49,706
TOTAL OPERATING REVENUE	$	**11,416,732**	$	**859,311**	$	**12,276,043**	$	**2,013,047**
OPERATING EXPENSES								
Operations & Maintenance		7,269,854		1,118,207		8,388,061		522,676
Administration Overhead		2,196,369		120,533		2,316,902		833,090
Taxes		289,503		4,199		293,702		-
Depreciation & Amortization		1,481,532		252,964		1,734,496		545,326
TOTAL OPERATING EXPENSES	$	**11,237,258**	$	**1,495,903**	$	**12,733,161**	$	**1,901,092**
OPERATING INCOME (LOSS)	$	**179,474**	$	**(636,592)**	$	**(457,118)**	$	**111,955**
NON-OPERATING REVENUE (EXPENSES)								
Interest Income	$	18,215		-	$	18,215	$	3,094
Interest Expense		(55,930)		(131,506)		(187,436)		-
Other Income (Expenses)		-		-		-		8,210
TOTAL NON-OPERATING REVENUE (EXPENSES)	$	**(37,716)**	$	**(131,506)**	$	**(169,222)**	$	**11,304**
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	$	**141,759**	$	**(768,098)**	$	**(626,339)**	$	**123,259**
Capital Contributions	$	2,519,929	$	-	$	2,519,929	$	-
Transfers In				752,029		752,029		146,700
Transfers Out		(54,880)		-		(54,880)		-
Current Period Net Income (Loss)		141,759		(768,098)		(626,339)		123,258
CHANGES IN NET POSITION	$	**2,606,808**	$	**(16,069)**	$	**2,590,739**	$	**269,958**
TOTAL NET POSITION - JANUARY 1	$	64,583,667	$	(1,409,502)	$	63,174,165	$	5,332,801
PRIOR PERIOD ADJUSTMENT	$	-	$	(49,993)		(49,993)	$	-
TOTAL NET POSITION - JANUARY 1 - RESTATED	$	64,583,667	$	(1,459,495)		63,124,172	$	5,332,801
TOTAL NET POSITION - DECEMBER 31	$	**67,190,474**	$	**(1,475,564)**	$	**65,714,910**	$	**5,602,759**

*** ALL ENTERPRISE FUNDS ARE MAJOR FUNDS**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Combined Statement of Cash Flows - All Proprietary Funds
For the Year Ended December 31, 2013

	MAJOR ENTERPRISE FUNDS *			
	UTILITIES FUND	GOLF COURSE FUND	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUND
Cash Flows from Operating Activities:				
Receipts from Customers	$ 11,174,210	$ 812,238	$ 11,986,448	$ -
Receipts from Quasi-External Operating Transactions	-	-	-	2,013,047
Receipts from Other Operating Activities	228,401	169,511	397,912	-
Payments to Suppliers of Goods &/or Services	(4,833,004)	(379,540)	(5,212,545)	(663,322)
Payments to Employees	(2,507,116)	(570,167)	(3,077,283)	(485,040)
Payments for Quasi-External Operating Transactions	(1,276,777)	-	(1,276,777)	(157,945)
Payments for Other Operating Activities	(1,034,524)	(106,269)	(1,140,793)	(504)
Net Cash Provided by Operating Activities	**$ 1,751,190**	**$ (74,228)**	**$ 1,676,962**	**$ 706,236**
Cash Flows from Noncapital Financing Activities				
Receipt of Interfund Loan	$ 81,598	$ -	$ 81,598	$ 44,327
Issuance of Interfund Loan	-	-	-	-
Repayment on Interfund Loan	185,000	(185,000)	-	-
Interest Received on Interfund Loan	3,640	-	3,640	32
Interest Paid on Interfund Loan	-	(3,640)	(3,640)	-
Transfers from Other Funds	-	752,029	752,029	146,699
Transfers to Other Funds	(54,880)	-	(54,880)	-
Net Cash Provided by Noncapital and Related Financing Activities	**$ 215,357**	**$ 563,389**	**$ 778,746**	**$ 191,059**
Cash Flows from Capital and Related Financing Activities:				
Payments for Capital Acquisitions	$ (2,290,453)	$ (282,286)	$ (2,572,739)	$ (511,165)
Principal Repayment on Public Work Trust Fund Loan	(56,833)	-	(56,833)	-
Interest Paid on Public Work Trust Fund Loan	(2,805)	-	(2,805)	-
Proceeds from Sale of Assets	-	-	-	26,061
Proceeds from Bonds	-	-	-	-
Proceeds from Capital Lease Debt	-	-	-	-
Capital Lease Deferred Costs	-	-	-	-
Bond Issue Costs	-	-	-	-
Principal Repayment on Bond	(450,000)	(205,000)	(655,000)	-
Interest Paid on Bond	(28,006)	(114,068)	(142,074)	-
Principal Repayment on Capital Lease	-	(78,516)	(78,516)	-
Interest Payment on Capital Lease	-	(16,079)	(16,079)	-
Contributions in Aid of Construction	1,136,323		1,136,323	-
Net Cash Provided by Capital and Related Financing Activities	**$ (1,691,773)**	**$ (695,948.37)**	**$ (2,387,722)**	**$ (485,104)**
Cash Flows from Investing Activities:				
Receipts of Investment Interest	$ 14,575	$ -	$ 14,575	$ 3,062
Net (Increase) / Decrease in Investments	-	-	-	-
Net Cash Provided by Investing Activities	**$ 14,575**	**$ -**	**$ 14,575**	**$ 3,062**
Net Increase in Cash and Cash Equivalents	**$ 289,349**	**$ (206,788)**	**$ 82,562**	**$ 415,253**
Cash and Cash Equivalents January 1	$ 10,779,093	$ 362,016	$ 11,141,110	$ 2,455,752
Cash and Cash Equivalents December 31	**$ 11,068,442**	**$ 155,229**	**$ 11,223,671**	**$ 2,871,005**
Reconciliation of Operating Income to Net Cash Provided by Operations:				
Operating Income/(Loss) (a)	$ 179,474	$ (636,591)	$ (457,117)	$ 111,955
Non-Cash Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation/Amortization Expense	1,481,532	252,964	1,734,497	545,326
Change in Assets & Liabilities:				
Accounts Receivable	(23,771)		(23,771)	
Other Operating Receivables	9,650	122,437	132,087	
Inventory	18,791	135,067	153,859	1,319
Vouchers Payable	41,579	69,674	111,253	41,426
Payroll Liability Payable	20,195	1,683	21,878	705
Accrued Annual Leave Liability	23,739	(19,463)	4,276	5,505
Total Adjustments (b)	$ 1,571,716	$ 562,363	$ 2,134,079	$ 594,281
Net Cash Provided/Used by Operations (a)+(b)	**$ 1,751,190**	**$ (74,228)**	**$ 1,676,962**	**$ 706,236**

*** ALL ENTERPRISE FUNDS ARE MAJOR FUNDS**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER

Statement of Fiduciary Net Position

December 31, 2013

		AGENCY FUNDS
ASSETS		
Cash & Cash Equivalents	$	609,634
TOTAL ASSETS	**$**	**609,634**
LIABILITIES		
Vouchers Payable	$	3,091
Deposits Payable to Other Parties		606,543
TOTAL LIABILITIES	**$**	**609,634**

The accompanying notes are an integral part to this financial statement.

CITY OF TUMWATER, WASHINGTON
Notes to the Financial Statements
December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Tumwater have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental. The Governmental Accounting Standards Board (GASB) is the nationally accepted standard setting body for establishing governmental accounting and financial reporting principles. GASB 63 and GASB 65 regarding deferred inflows and deferred outflows have been implemented with the 2013 financial statements and notes. The other significant accounting policies are described below.

A - Reporting Entity

The City of Tumwater was incorporated on November 25, 1869 and operates under the laws of the State of Washington applicable to a Code City Mayor/Council, form of government. The City provides what are considered general governmental services authorized by state law, including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspections, general administration, and water and sewer services.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. The City's policy is to not allocate indirect costs to a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements.

C – Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using *the economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The City reports the following major governmental fund:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Development Fees Fund* is a special revenue fund that receives and disperses funds (i.e., transportation impact fees, park impact fees) via interfund transfers for the specific development activities.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *Capital Projects Fund* is the City's primary reporting fund for general government acquisition and development projects (i.e., government buildings, city parks) and transportation infrastructure development.

The City reports the following major proprietary funds:

- The *Combined Utilities Fund* provides water, sewer, and storm drain services to most properties within the City and to some areas outside the City limits.
- The *Golf Course Fund* operates the Tumwater Valley Municipal Golf Course, a 7,200 yard 18-hole championship golf course with a pro-shop operated by the fund and restaurant space leased to a private party.

Additionally, the City reports the following fund type:

- An *Internal Service Fund* that accounts for heavy equipment and vehicle fleet management services as well as computer and communication equipment to the general government and enterprise funds.

As a general rule, the effect of interfund activities has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility fund and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than program revenues, therefore general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Fund enterprise fund, the Golf Course Fund, and the Asset Management and Reserve Fund internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

D – Assets, Liabilities, and Net Position or Equity

1 – Deposits and Investments (see Note 4 – 1-Deposits and Investments)

It is the City's policy to invest all temporary cash surpluses. The interest on these investments is distributed to the various funds based on the amount available to invest at the end of the preceding month. The City's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

The City is authorized by state law to purchase certificates of deposit issued by Washington State depositories that participate in the State of Washington Public Deposit Protection Commission Pool, U.S. Treasury and agency securities, state and local government obligations, banker's acceptance and repurchase agreements, and the State of Washington Investment Pool. In accordance with GASB Statement 31, all investments are restated at market value as determined by the market on the balance sheet date. The change in balance sheet value of investments caused by this method of reporting is recognized as realized income.

<u>2 – Receivables and Payables</u>

Taxes receivable consists of property taxes (see: Note 4 – 2-Property Taxes) and accrued retail sales tax. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts owed on municipal court fines, utility customers for services provided, and other situations as they arise. Other significant non-recurring miscellaneous receivables are recognized as needed if measurable and available in governmental funds or recorded in proprietary funds.

<u>3 – Amount Due To and From Other Funds and Governments, Interfund Loans</u>

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." (A disclosure of interfund loans receivable and payable is included in Note 4 – 5-Interfund Receivables, Payables, and Transfers.)

Items identified as "Due from Other Governments" represents grant funding accrued for expenditures or expenses incurred during the reporting period. Additionally, property tax receipts collected by the Thurston County Treasurer as of December 31st but not received are identified in this classification. Items identified as "Due to Other Governments" represent the amount owed by the Utility fund to other governmental agencies for waste treatment and utility tax.

<u>4 – Inventories</u>

All inventories in proprietary funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased. However, there are no inventories in governmental activities at this time.

<u>5 – Restricted Assets and Liabilities</u>

Restricted assets include those amounts reserved for revenue bond debt as stipulated in the covenants of the issue, proceeds provided for debt service, legally restricted lodging tax revenue, fees collected specifically for development purposes (i.e.; impact fees, mitigation fees), money acquired from drug seizures and other felonies restricted to drug enforcement activities, and other purposes as they may occur.

<u>6 – Capital Assets (see Note 4 – 3-Capital Assets)</u>

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Intangible assets are included to the extent they can be identified. The type of intangibles the City may hold that have a definite useful life may include easements, water rights, and computer software. Of the items examined, easements that have been acquired have an indefinite useful life, water rights acquired are used in the production of the water supplied to the customers rather than held for resale. The City has placed value in the purchase of licensing of integrated software used by all departments, the conversion of data, and implementation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the reporting period there were no such projects funded by debt proceeds, therefore no capitalized interest to recognize.

Property, plant, and equipment of the City are depreciated using the straight line method with useful lives of 3 to 50 years depending on the type of asset. The useful lives of Infrastructure normally is 20-50 years, Buildings and components is 5-50 years, Improvements other than buildings is 5-50 years, Motor vehicles useful life is 5-15 years, electronic equipment 3-6 years and other machinery and equipment is 5-15 years.

Transportation infrastructure is reported in G*overnmental Capital Assets Not Being Depreciated* as *Construction in Progress* until each project is completed. At that time it is to be identified as infrastructure assets in the appropriate classifications and depreciated over the useful life of the assets.

7 – Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

Annual leave is accumulated monthly at annual rates ranging from 12 to 23 days depending on tenure and union agreements. Employees may accumulate up to a maximum of 240 to 360 hours inclusive of current year accruals according to union agreements and City ordinances. Vacation leave is payable upon resignation, retirement, or death, to all employees having completed six months of service up to a maximum of 240 hours. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds if they have matured.

The sick leave accrual rate for forty hour per week employees is eight hours per month. Twenty-four hour fire department shift employees are credited with one working day of sick leave for each full month of employment. Some classes of employees are eligible for payment of sick leave at 25 percent of the hourly value upon retirement, voluntary termination, or layoff. Additionally, some employees may cash out a portion of sick leave each year at 25 percent of the hourly value based on criteria that recognizes minimal use of sick leave over a minimum of nine years of employment. Consequently, a liability for the potential cash-out is reported in all funds to the extent that it could be expended.

8 – Other Accrued Liabilities

Accrued wages and benefits and the cost of goods or service purchased by all funds not paid by the report date are recognized and paid during the following month. The cost of services provided by the regional waste treatment facility during the reporting period and paid after the report date are recognized in the fund financial statement of the Utilities Fund and in the business-type activities in the government-wide reports.

9 – Long-term Debt (see Note 4 – 6-Debt)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

10 – Deferred Outflows

This account includes amounts recognized as receivable but not as revenue in governmental funds at the fund reporting level because the revenue recognition criterion has not been met. The amount represents property taxes assessed and shown as a receivable but not available within 30 days from the report date (see Note 4 – 2-Property Taxes) as well as retail sales tax, investment interest, and municipal court fines shown as receivable but not yet available under the same criteria.

11 – Fund Balance Classifications

As provided in GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, the City reports the fund balance classifications in aggregate in the balance sheet of the funds financial statement.

The following is the hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent:

- Nonspendable – Not available for spending in the current year (prepaid items, inventories, long-term portion of loans receivable, non-financial resources held for sale).
- Restricted – Subject to externally enforceable legal restrictions (imposed by creditors, grantors, donors, other governments, etc.) or imposed by law through constitutional or enabling legislation.
- Committed – Constrained by limitations that the City imposes upon itself by an action of the City Council and that remains binding unless removed in the same manner.
- Assigned – Reflects the City's intended use of resources.
- Unassigned – The remaining fund balance after identifying all other classifications of resources.

The following table presents the detail of each classification reporting in the fund level balance sheet presentation.

	MAJOR GOVERNMENTAL FUNDS				OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEVELOPMENT FEES FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		
FUND BALANCES						
Restricted for:						
Court Trust Funds	$ 2,002					$ 2,002
Public Safety Levy	$ 1,419,163					$ 1,419,163
G.O. Bond Debt Service			$ 64,358			$ 64,358
Impact & Mitigation Fees		$ 5,238,108				$ 5,238,108
Lake Management District					$ 27,355	$ 27,355
Lodging Tax Funds					$ 122,623	$ 122,623
Drug Enforcement					$ 84,816	$ 84,816
Domestic Violence Advocacy					$ 9,891	$ 9,891
Committed to:						
Emergency Preparedness	$ 282,798					$ 282,798
Capital Facilities Plan				$ 3,261,311		$ 3,261,311
Assigned to:						
Facilities Maintenance	$ 439,104					$ 439,104
E-Link & Fiberoptics Updates	$ 369,022					$ 369,022
Tumwater Youth Program	$ 15,265					$ 15,265
Parks Board	$ 19,650					$ 19,650
Historical Commission	$ 37,615					$ 37,615
K-9 Program	$ 5,996					$ 5,996
Unassigned:	$ 5,171,679	$ -	$ -	$ -	$ -	$ 5,171,679
TOTAL FUND BALANCE	**$ 7,762,294**	**$ 5,238,108**	**$ 64,358**	**$ 3,261,311**	**$ 244,685**	**$ 16,570,756**

Totals of All Funds By Classification:	
Non-Spendable	$ -
Restricted	$ 6,968,316
Committed	$ 3,544,109
Assigned	$ 886,655
Unassigned	$ 5,171,676
TOTAL OF ALL FUNDS	**$ 16,570,756**

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1 – Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position -governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Liabilities, including bonds and other debt instruments plus interest are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	$	1,055,000
Less: Deferred charge for issuanace costs (to be amortized over life of debt)		(50,505)
Plus: Issuance premium (to be amortized as interest expense)		494,298
Accrued interest payable		17,758
Compensated absences		1,172,211
OPEB Obligation Payable		1,413,039
Other Notes Payable		4,050,945
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	$	8,152,746

Another element of that reconciliation states, "Other assets are not available to pay for current period expenditures and therefore deferred in the funds." The details of this difference are as follows:

Measureable but not yet available:		
Property Taxes	$	195,737
Retail Sales Taxes		398,329
Municipal Court Fines		183,152
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$	777,218

2 – Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances-total governmental funds and changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as reported as depreciation expense." The details of this difference are as follows:

Increase in Capital Assets	$	4,990,249
Depreciation Expense		(3,027,604)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$	1,962,644

Another element of that reconciliation states, “Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.” Repaying of principal is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The details of this difference are as follows:

Debt issued or incurred:		
Increase in other notes and obligations payable	$	(4,081,073)
Principal repayments:		
Scheduled general obligation payments		(200,105)
Payment on other notes and obligations payable		-
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$	(4,281,178)

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds when deferred.” This is the amount by which increases in these deferrals exceed decreases. The details of this difference are as follows:

Measureable but not yet available at the fund reporting level:		
Property Taxes	$	14,846
Retail Sales Taxes		(9,271)
Municipal Court Fines		(2,327)
Investment Interest		-
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$	3,248

NOTE 3 –STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1 - Budgetary Information

The City budgets its funds in accordance with the Revised Code of Washington (RCW 35A.34). In compliance with the Code, budgets for all funds are established with the exception of the fiduciary funds. Budgets established for proprietary funds are “management budgets”.

The biennial budget, which begins on the odd years, is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level (i.e., expenditures may not exceed budget appropriations at the fund level). Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the City Council. All appropriations lapse at the end of the biennium. Unexpended resources must be re-appropriated in the subsequent biennium. The budgetary basis used in the City is substantially the same as the basis of accounting for the governmental fund types.

Washington State law establishes the biennial budget process and the time limits under which a budget must be developed. The City follows the procedures outlined below to establish its budget. The budget schedule, listing more specific dates for completing the following items is established in June.

- Department directors provide the City Administrator and Mayor with preliminary estimates of revenues and expenditures by September 1.
- The Mayor’s preliminary budget is filed with the City Clerk on or before October 1.
- The City Council will fix by ordinance the amounts to be raised in property taxes on or before the first week of November each year of the budget.
- During the first two weeks of November, the City Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.

- During November and before the public hearing, the City Council meets in a work session to review the preliminary budget. These meetings are open to the public.
- On or before the first Monday of December, final public hearings are commenced and may be continued to no later than the 25th day of December prior to the next fiscal year.
- On or before December 31, the City Council adopts the final budget ordinance. The City Clerk publishes a notice indicating budget adoption has been completed.
- The final budget document is published, distributed, and made available to the public during the first three months of the following year.
- A Mid-biennial Review and Modification must occur no sooner than eight months after the start nor later than the conclusion of the first year of the biennium.

Supplementary information is presented later in this report for the general fund and all major special revenue funds that illustrate budgetary information for the current year of the biennium.

2 – Excess of Expenditures over Appropriations and Deficits of Fund Equity

- No funds exceeded the appropriations adopted in the budget.
- The Golf Course Enterprise Fund reports a deficit fund balance of $1,429,652. This deficit should decline yearly as debt service payments are made. The General Government Capital Construction Fund transfers funds annually to the Golf Course Fund for payment of debt service on the General Obligation bonds. The current principal outstanding of these bonds is $3,040,000 and the final debt service payment is made in 2025.
- There have been no material violations of finance-related, legal or contractual provisions.

NOTE 4 – DETAILED NOTES RELATING TO ALL FUNDS

1 – Deposits and Investments

The investment policies of the City are described in Note 1 – D-1 Deposits and Investments. As required by state law and the City's investment policy, all deposits and investments of the City funds consist of deposits in Washington Public Deposit Protection Commission (PDPC) member institutions, obligations of the U.S. Government, state or local governments, federal government sponsored corporations, the Washington State Local Government Investment Pool (LGIP), bankers acceptances, and investment deposits.

Deposits

The City's deposits and certificates of deposit are covered by federal deposit insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. It constitutes a multiple financial institution collateral pool that insures public deposits. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 10 percent of its public deposits. The PDPC provides protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositaries and optimizing collateralization requirements. The custodial risk for deposits is the risk that, in the event of a depository financial institution failure, the City's deposits with banks and savings and loan associations may not be recovered. Because of the PDPC, the City's deposits are not subject to this risk.

Investments

Although the city holds no investments as of the reporting date, all investments are to be shown on the entity-wide Statement of Net Position at fair values as of December 31, 2013; however the Washington State Local Government Investment Pool (LGIP) is reported on the balance sheet as Cash and Cash Equivalents. The LGIP is an un-rated 2a-7 like pool, as defined by GASB31, and not registered with the SEC as an investment company, but has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Office of the State Treasurer manages the pool with the goals of the safety of principal and the assurance of sufficient liquidity to meet the cash flow demands of the participants, and strives to attain the highest possible yield within the constraints of those goals. Historically, the LGIP has had sufficient liquidity to meet the needs of the participants.

Investment Interest Rate Risk
When funds are invested, the City employs a passive investment strategy, purchasing and holding investments with a maximum five year maturity unless tied to a specific cash flow beyond five years. At the end of the year, the City held no investments. All funds were held as cash or deposited at the Washington State Local Government Investment Pool.

Investment Credit Risk
As required by state laws, it is the City's policy to limit its investments in debt securities to the obligations of the U.S. Government, U.S. Agency issues, obligations of Washington State municipalities, and the Local Government Investment Pool. The policy of the LGIP is to invest in securities and instruments that are eligible under various state laws. The investment policy of the LGIP is available at www.tre.wa.gov .

Investment Custodial Risk
All investments must be held in the City's name by third party custodians and are considered Category 1 investments.

Summary of Deposits and Investments

Deposits and Investments December 31, 2013		
Deposits		
State Investment Pool	$	25,013,026
Short Term Invested		4,029,712
CD interest		
Checking & Trustee Accounts		2,663,037
Total Deposits	$	31,705,775
Investments		Market Value
U.S. Government Securities	$	-
Certificates of Deposit		-
Total Investments	$	-
TOTAL DEPOSITS & INVESTMENTS	$	31,705,775

2 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in Thurston County for all taxing authorities.

The property tax calendar is as follows:

- January 1 - Property taxes are levied on property values assessed as of the same date and become an enforceable lien against properties.
- February 14 – Tax bills are mailed.
- April 30 - The first of two equal installments is due.
- May 31 – Assessed value of property is established for next year's levy at 100% of market price.
- October 31 – The second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred outflow and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to $3.10 per $1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following reasons:

- The Washington State constitution limits the total regular property taxes to one percent of assessed valuation or $10 per $1,000 of value.
- If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
- In 2001, a referendum was approved which limits the increase in general property taxes to 1 % above the prior year's assessment.
- The City may voluntarily levy taxes below the limits approved by referendum(s).
- Special levies approved by the voters are not subject to the above limitations.

In August 2011, the citizens of Tumwater approved a six-year permanent levy lid lift of general property taxes for the purpose of enhancing existing public safety programs. The levy increases property taxes by 29% in 2012 to collect an additional $1,445,000, increasing by a CPI factor through 2017 and becoming permanent in 2018. Due to the effect of the levy lid lift and declining property values, the rate per $1,000 on assessed value rose to $3.10 in 2013. Total taxes assessed were $6,588,841 based on that rate on total assessed valuation of $2,125,432,722.

In addition to the regular tax levy, $240,000 was collected for the retirement of general obligation bonds issued for the construction of the Fire Department Headquarters building and fire suppression apparatus acquired in 1998.

3 – Capital Assets

Governmental capital asset activity for the year ended December 31, 2013 was as follows:

GOVERNMENTAL ACTIVITIES		BEGINNING BALANCE		INCREASES		DECREASES		ENDING BALANCE
Capital Assets not being Depreciated:								
Historic Artifacts		298,499		-		-		298,499
Land		3,813,331		9,834		-		3,823,165
Right of Way		67,994,574		47,578		-		68,042,152
Work in Progress		12,589,366		4,683,083		(7,949,791)		9,322,658
Total Capital Assets not being Depreciated	$	84,695,770	$	4,740,495	$	(7,949,791)	$	81,486,474
Other Capital Assets:								
Buildings	$	10,369,410	$	-	$	-	$	10,369,410
Improvements		4,633,314		-		-		4,633,314
Machinery and Equipment		9,138,487		1,112,090		(370,245)		9,880,332
Capitalized Integrated Software		464,543		15,994		-		480,537
Roadways		88,080,990		7,585,544		(78,971)		95,587,563
Total Other Capital Assets at Historical Cost	$	112,686,745	$	8,713,628	$	(449,216)	$	120,951,157
Less Accumulated Depreciation								
Buildings	$	(5,977,963)	$	(351,698)	$	-	$	(6,329,660)
Improvements		(1,507,010)		(93,650)		-		(1,600,660)
Machinery and Equipment		(5,818,406)		(579,421)		352,394		(6,045,433)
Capitalized Integrated Software		(154,848)		(31,103)		-		(185,951)
Roadways		(42,661,853)		(2,517,059)		78,971		(45,099,941)
Total Accumulated Depreciation	$	(56,120,080)	$	(3,572,931)	$	431,365	$	(59,261,645)
Other Capital Assets, Net of Depreciation	$	56,566,665	$	5,140,698	$	(17,851)	$	61,689,511
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	$	141,262,435	$	9,881,193	$	(7,967,643)	$	143,175,985

Depreciation was charged to functions as follows:

Governmental Activities		
General Government	$	119,009.53
Public Safety - Police		24,056.06
Public Safety - Fire		128,583.65
Public Works		17,152.60
Public Works - Roadway		2,517,059.00
Economic Environment		9,359.79
Culture & History		73,877.83
Parks & Recreation		138,506.22
In addition, depreciation on capital assets held by an internal service fund is charge to various functions based on their usage of the assets owned by the fund.	$	545,326
TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE	$	3,572,931

Business-type capital asset activity for the year ended December 31, 2013 was as follows:

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital Assets not being Depreciated:				
Land and Improvements	$ 346,388	$ -	$ -	$ 346,388
Construction in Process	12,943,646	2,178,084	-	15,121,730
Total Capital Assets not being Depreciated	13,290,034	2,178,084	-	15,468,118
Other Capital Assets:				
Buildings	$ 2,236,126	$ -	$ -	$ 2,236,126
Improvements	3,388,654	-	-	3,388,654
Machinery and Equipment	1,557,357	394,655	-	1,952,012
Utility Systems	57,638,749	1,383,606	-	59,022,355
Total Other Capital Assets at Historical Cost	$ 64,820,886	$ 1,778,261	$ -	$ 66,599,147
Total Assets	78,110,920	3,956,345	-	82,067,265
Less Accumulated Depreciation				
Buildings	$ (697,656)	$ (272,100)	$ -	$ (969,756)
Improvements	(1,403,425)	(1,350,867)	-	(2,754,293)
Machinery and Equipment	(1,294,566)	(124,018)	-	(1,418,584)
Utility Systems	(18,305,426)	-	-	(18,305,426)
Total Accumulated Depreciation	$ (21,701,073)	$ (1,746,986)	$ -	$ (23,448,058)
Other Capital Assets, Net of Depreciation	$ 43,119,813	$ 31,275	$ -	$ 43,151,088
NET BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS	$ 56,409,847	$ 2,209,359	$ -	$ 58,619,206

Depreciation was charged to functions as follows:

Business-Type Activities	
Combined Utility	$ 1,482,334
Golf Course	264,652
TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION EXPENSE	$ 1,746,986

4 – Construction Commitments

The City has active construction projects in progress as of December 31, 2013. The project listing below represents the *major* projects underway. There are a number of smaller projects with costs accumulating from City staff project planning and review time as well as professional services and construction contracts. The majority of the financing of transportation projects is received from impact and mitigation fees paid by developers and from grants from the State of Washington. Utility projects are funded from fees paid by customers. There are no major projects underway in the utility funds at this time.

PROJECT NAME	SPENT TO DATE	ESTIMATED REMAINING COMMITMENT
Sapp/Rural/Linwood Matermain	$ 1,545,329	$ 65,587
Palermo Rehablitation Project	66,534	158,731
Total	$ 1,611,863	$ 224,318

5 – Interfund Receivables, Payables, Loans, Transfers

Loans

An three-year interfund loan from the Equipment Rental internal service fund to the Capital Projects Fund to finance the renovation of the Old Town Center building that serves as the seniors and youth center was authorized in April 2011. The loan was not to exceed $300,000 and to be used for an upgrade of the fire suppression system and other improvements to prepare for the addition of a day care center. Payment of $44,327 was made in 2013 to close out the loan as scheduled. Since the Equipment Rental internal service fund is reported as Governmental Activities in the Statement of Net Position, the interfund activity is eliminated.

A four-year interfund loan from the combined utilities fund to the Capital Projects Fund to finance the acquisition of land in Tumwater Valley for future park use and for improvements to the access to Tumwater Valley was authorized in April 2012. Payment of $81,598 was made in 2013 leaving the balance at $244,794.

An interfund loan from the combined utility funds to the golf course fund has been authorized by City ordinance. During the year, a total of $405,721 in draws was made and $590,721 was repaid. The principal balance at the end of the year is $1,695,732 with an authorized maximum of $2,100,000.

Transfers

Transfers to the General Fund and Capital Projects Fund totaling $617,318 from the Utilities Fund represent utility taxes collected by the Utilities Fund that is recorded as an operating revenue when billed and an operating expense when transferred to the governmental funds. The governmental funds report this as tax revenue. The Development Fee Fund transferred money totaling $745,246 the majority of which represents transportation impact fees or mitigation fees collected from new development and utilized in the current year for transportation projects. The Golf Course Fund transfer-in of $518,863 from the Capital Projects Fund is authorized as a component of the capital facilities plan and is for payment of debt service. The General Fund also funded debt service and operations of the Golf Course Fund with a transfer of $233,166.

Transfers Out:	Transfers In						
	General Fund	Debt Service Fund	Capital Projects Fund	Utilities Fund	Golf Course Fund	Internal Service Fund	Total
General Fund		$ 71,866	$ 115,324	$ -	$ 233,166	$ 143,819	$ 564,175
Development Fees Fund			$ 745,246				$ 745,246
Capital Projects Fund	20,421	3,196			518,863		542,479
Utilities Fund	380,683		288,635			2,880	672,199
Total Transfers Out	$ 401,104	$ 75,062	$ 1,149,204	$ -	$ 752,029	$ 146,699	$ 2,524,098

6 – Debt

Short Term Debt

The City has not utilized anticipation notes, lines of credit, or similar short-term borrowing instruments during the reporting period.

Leases

The City may enter into lease agreements for financing capital acquisitions. Leases for golf carts, golf course maintenance equipment, a fire pumper truck, and for expansion of city hall have been authorized. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payment as of the inception of the leases.

Long Term Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In past years, general obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

OUTSTANDING GENERAL OBLIGATION BONDS			
Purpose	Interest Rate		Amount
Golf Course Acquisition and Upgrade	3.470%	$	3,040,000
Fire Headquarters and Trucks	3.157%	$	1,055,000

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR GENERAL OBLIGATION BONDS								
Year Ending		Governmental Activities				Business-Type Activities		
December 31		Principal		Interest		Principal		Interest
2014		200,000		35,400		210,000		109,713
2015		200,000		29,400		215,000		104,388
2016		210,000		23,400		220,000		97,863
2017		220,000		16,575		230,000		91,113
2018-2022		225,000		8,875		1,270,000		322,556
2023-2025						895,000		55,025
TOTAL	$	1,055,000	$	113,650	$	3,040,000	$	780,656

The City also issued bonds where the City pledges a portion of income derived from the Utility Fund to pay debt service.

Revenue bonds currently outstanding are as follows:

OUTSTANDING REVENUE BONDS			
Purpose	Interest Rate		Amount
Combined Utility Projects	2.949%	$	455,000

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR REVENUE BONDS				
Year Ending December 31		Principal		Interest
2014		225,000		14,507
2015		230,000		7,475
TOTAL	$	455,000	$	21,982

The City also borrowed funds from the State of Washington Public Works Board. Public works trust fund loans are available to selected local governments for the repair, replacement, reconstruction, rehabilitation, or improvements of bridges, roads, domestic water systems, sanitary sewer, and storm systems. This junior lien of the City Utility Fund is paid from the revenue generated from operations.

Public Works Trust Fund loans currently outstanding are as follows:

OUTSTANDING PUBLIC WORKS TRUST FUND LOANS			
Purpose	Interest Rate		Amount
Combined Utility Projects	1.00%	$	223,650

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR PUBLIC WORKS TRUST FUND LOANS				
Year Ending December 31		Principal		Interest
2014		44,730		2,236
2015		44,730		1,789
2016		44,730		1,342
2017		44,730		895
2018		44,730		447
TOTAL	$	223,650	$	6,709

The City entered into agreements for the acquisition of equipment and real estate by executing capital leases. The leases are short term arrangements through the Washington State Treasurer's Office.

Capital leases outstanding are as follows:

OUTSTANDING CAPITAL LEASES			
Purpose	Interest Rate		Amount
City Hall Expansion	2.394%	$	3,600,000
Fire Pumper Truck	1.849%	$	450,945
Golf Course Maintenance Equipment	1.197%	$	203,403
Golf Carts	1.350%	$	178,262
		$	4,432,610

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR CAPITAL LEASES				
Year Ending December 31		Principal		Interest
2014		474,343		181,413
2015		483,963		168,094
2016		499,431		151,976
2017		520,493		133,014
2018		485,725		110,337
2098-2022		1,968,656		198,214
TOTAL	$	4,432,610	$	943,048

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31 was as follows:

The vast majority of the City's internal service fund serves governmental funds. Accordingly, liabilities for the Equipment Rental and Reserve fund are included as part of the totals for governmental-type activities in the government-wide statements. At the end of the year, the compensated leave balance in this fund is $59,252.76 and is reported in Governmental Activities.

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Bonds and Notes Payable					
General Obligation Bonds	$ 1,255,000	$ -	$ (200,000)	$ 1,055,000	$ 200,000
Capital Lease Obligations	$ 497,949	$ 3,600,000	$ (47,004)	$ 4,050,945	$ 393,436
	$ 1,752,949	$ 3,600,000	$ (247,004)	$ 5,105,945	$ 593,436
Plus Premiums / Less Discounts	115,993	420,620	(42,315)	494,298	
Less Deferred Amount on Refundings	(60,606)	-	10,101	(50,505)	
Total Bonds and Notes Payable	$ 1,808,337	$ 4,020,620	$ (279,218)	$ 5,549,738	$ 593,436
Other Liabilities					
Compensated Leave	$ 1,007,299	$ 224,165		$ 1,231,464	$ -
Post-Employment Benefit Obligtion	1,103,621	309,418		1,413,039	
GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	$ 3,919,257	$ 4,554,203	$ (279,218)	$ 8,194,241	$ 593,436

BUSINESS-TYPE ACTIVITIES	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Bonds and Notes Payable					
General Obligation Bonds (Golf Course Fund)	$ 3,245,000	$ -	$ (205,000)	$ 3,040,000	$ 210,000
Capital Lease Obligations (Golf Course)	460,182	-	(78,516)	381,666	80,908
Revenue Bonds (Utilities Fund)	905,000	-	(450,000)	455,000	225,000
Public Works Trust Fund Loans (Utilities Fund)	280,482		(56,833)	223,649	44,730
	$ 4,890,664	$ -	$ (790,349)	$ 4,100,315	$ 560,638
Plus Premiums	149,772	-	(19,439)	130,333	
Less Discounts	-	-	-	-	
Less Deferred Amount on Refundings	(214,720)	-	37,559	(177,160)	
Total Bonds and Notes Payable	$ 4,825,716	$ -	$ (772,229)	$ 4,053,488	$ 560,638
Other Liabilities					
Compensate Leave	$ 243,085	$ 4,276	$ -	$ 247,361	$ -
Total Other Liabilities	243,085	4,276	-	247,361	-
BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES	$ 5,068,802	$ 4,276	$ (772,229)	$ 4,300,849	$ 560,638

7 – Joint Venture

Animal Control Commission

The City holds an ongoing equity interest in the local Animal Control Commission along with the City of Olympia, City of Lacey, and Thurston County. The agreement between the parties defines the equity interest based on the percentage of contributions made by all entities. The City of Tumwater holds a 7.06% interest as of December 31, which equates to a value of $271,121 of the total equity of $3,840,244, for an increase of $10,964 from the prior year. The financial statements for the Commission are included in the annual financial report of the City of Lacey, 420 College Street S.E., Lacey, Washington 98503.

Law Enforcement Records Management System (LERMS)

The LERMS is a joint venture providing accurate and timely criminal justice data sharing to the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The goal of this joint venture is to share public safety information, increase operational efficiency via a reduction in data entry, and ease the process of accessing information. These goals will improve officer and citizen safety, facilitate coordination and information sharing to both internal and external agencies, and improve data quality and timeliness of data accessibility. It is governed through an interlocal agreement by the LERMS Consortium, which is a five member board composed of each City's Chief of Police (or their designee).

An equity interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. As of December 31, the City of Tumwater owns a 14% share of the equity. Net Position as of the end of the year was $152,268. The City's interest is $21,318, a decrease of $13,883 from the prior year. The City of Tumwater reports its share of equity interest as an investment in joint venture, in the government-wide statement of net position.

An ongoing financial interest exists for the cities of Lacey, Olympia, Tenino, Tumwater, and Yelm. The agreement specifies a funding formula that annually assesses member cities based on current year population as determined by the Thurston Regional Planning Council (unless otherwise adjusted by the Consortium). All property is considered to be jointly owned. Parties will be reimbursed based on their contribution upon sale of property upon the dissolution of LERMS. Any member may withdraw from the agreement at the end of any calendar year, providing a notice to the Consortium no less than six months prior to the date of withdrawal. Withdrawal of a party will not terminate the agreement of the remaining parties.

The City of Olympia accounts for the joint venture in a separate agency fund. Completed Financial Statements can be obtained from the City of Olympia Administrative Services Department, PO Box 1967, Olympia, WA 98507

8 – Other Post-employment Benefits (OPEB)

In addition to the pension benefits described in #9 (below), the City of Tumwater provides post-employment health care benefits; in accordance with Title 41 RCW to 15 LEOFF Plan 1 retirees that meet those eligibility requirements. There are no active LEOFF Plan I employees. The City reimburses 100% of the amount of validated claims for medical and hospitalization costs incurred by LEOFF Plan I employees. The City also reimburses a fixed amount of $104.90 per month for a Medicare supplement (Part B) for each retiree eligible for Medicare. Employer contributions are financed on pay-as-you-go basis. Expenditures for post-employment health care benefits are recognized as retirees report claims. During the year, expenditures of $249,411 were recognized for LEOFF Plan 1 retired employees.

The City has purchased long-term care insurance coverage for all LEOFF Plan 1 members to offset the costs that would be paid by the City if incurred.

Annual OPEB Cost and Net OPEB Obligation

The City used the alternative measurement method permitted under GASB Statement No. 45. Termination and mortality rates were assumed to follow the LEOFF 1 termination and mortality rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Millman and used by the OSA in the state-wide LEOFF Plan 1 medical study performed in 2011. The results were based on grouped data with four inactive groupings. The actuarial cost method used to determine the accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purpose of this valuation.

The Actual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 25 years using closed group contribution rates. The following table shows the components of the City's annual OPEB cost for the year and the amount actually contributed to the plan. The net OPEB obligation of $1,413,039 is included as a non-current liability in the Statement of Net Position. The City's percentage of annual OPEB cost contributed to the plan for 2013 is 40.62%.

		2011		2012		2013
Annual Required Contribution (ARC)	$	454,077	$	425,348	$	613,945
Interst on Prior Year's Net Obligation *		36,293		44,298		44,145
Net Obligation Amortization		(75,096)		(91,662)		(99,261)
Annual OPEB Cost		415,274		377,984		558,829
Less: City Contribution		(237,371)		(258,766)		(249,411)
Addition to Net Obligation		177,903		119,218		309,418
Plus: Cumulative Net Obligation Prior Year		806,500		984,403		1,103,621
Net Obligation - Year-end	$	984,403	$	1,103,621	$	1,413,039

*Average annual interest estimate = 4%

As of December 31, 2013, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $6,826,074 and the actuarial value of the assets was $0 resulting in an Unfunded Actuarial Accrued Liability of $6,826,074. A significant increase in the unfunded liability has been recognized in 2013 caused by changes related to the Affordable Care Act that will become effective in 2018.

OPEB Plan for Employees other than LEOFF Plan 1

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust (“Trust”), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the Trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. That report, along with a copy of the Trust document, may be obtained by writing to the Trust at 1076 Franklin Street S.E., Olympia, WA 98501-1346, or by calling 1-800-562-8981.

The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees, and other beneficiaries, if any, are established and may be amended by the Board of Trustees of the Trust. Retirees, of the City receiving medical benefits from the Trust contribute the following monthly amounts:

Health First-1000 Plan

- $830.01 for non-Medicare enrolled retiree-only coverage,
- $837.26 for non-Medicare enrolled spouse coverage,
- $443.30 for Medicare-enrolled retiree coverage,
- $456.13 for Medicare enrolled spouse coverage.

Health First Plan

- $724.72 for non-Medicare enrolled retiree-only coverage,
- $729.99 for non-Medicare enrolled spouse coverage,
- $388.08 for Medicare-enrolled retiree coverage,
- $398.04 for Medicare enrolled spouse coverage.

Participating Employers are not contractually required to contribute at a rate assessed each year by the Trust for the non-LEOFF Plan 1 retirees. The retirees pay 100% of the premium.

9 – Prior Period Adjustments

The prior period adjustment of $49,993 for proprietary funds is related to the bond issuance costs for the golf course resulting in a change to net position of $45,912. The difference of $4,081 was reported in as a change in expenditures for amortization/depreciation on the golf course fund statement. A corresponding change is shown on the cash flow statement for the golf course. These adjustments are part of the implementation of GASB 63 and GASB 65 related to the change in reporting of deferred outflows, however, bond issuance costs do not meet the definition of deferred outflows, thus a prior period correction was made. This should be a one-time correction to net position.

10 – Pension Plans

Substantially all City of Tumwater full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to but not yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members not participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov.*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov.	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$14,699	$487,151	$114,204
2012	$17,887	$425,659	$96,992
2011	$15,232	$361,940	$74,285

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	10,189
Terminated Plan Members Entitled to but not yet Receiving Benefits	689
Active Plan Members Vested	14,273
Active Plan Members Non-vested	2,633
Total	27,784

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For DRS' Fiscal Year 2013, the state contributed $54.2 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2013, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%**
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for ports and universities is 8.59%.

Both City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

2013	$0	$316,727
2012	$0	$291,198
2011	$0	$259,024

<u>Public Safety Employees' Retirement System (PSERS) Plan 2</u>

<u>Plan Description</u>
PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- PERS 2 or 3 employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

Covered employers include:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Spokane and Tacoma; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or

- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

re are 75 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	27
Terminated Plan Members Entitled to but not yet Receiving Benefits	60
Active Plan Members Vested	2,083
Active Plan Members Non-vested	2,167
Total	4,337

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2013, were as follows:

	PSERS Plan 2
Employer*	10.54%
Employee	6.36%

* The employer rate includes an employer administrative expense fee of 0.18%.

There are currently no City of Tumwater employees participating in PSERS Plan 2.

11 – Contingencies and Litigation

As of December 31, a number of claims were pending against the City for damages and legal actions with either monetary claims or issues that could affect the City financially. While the outcome of these actions is uncertain, no losses are clearly anticipated at this time. Any potential adverse judgments against the City would be subject to coverage under the City's comprehensive liability insurance, which includes public official's errors and omissions insurance.

12 – Risk Management

The City of Tumwater is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.
WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall. There are no liability losses which exceeded insurance coverage for the City of Tumwater 1/1/2009 to 12/31/2013.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

CITY OF TUMWATER

GENERAL FUND - Budget and Actual

Schedule of Revenues, Expenditures, and Changes in Fund Balance

For the *Biennium* Ended December 31, 2014

	BEGINNING 2013-2014 BIENNIAL BUDGET	FINAL 2013-2014 BIENNIAL BUDGET	ACTUAL 2013 BIENNIUM-TO-DATE THRU 12/31/2013
REVENUES			
Taxes	$ 29,367,229	$ 29,458,229	$ 14,164,422
Licenses & Permits	1,621,675	1,621,675	892,903
Intergovernmental	5,515,499	6,114,909	2,925,973
Charges for Services	2,804,264	2,804,264	1,442,319
Fines & Forfeitures	482,020	482,020	239,772
Miscellaneous	327,850	327,850	229,630
TOTAL REVENUES	**$ 40,118,537**	**$ 40,808,947**	**$ 19,895,019**
EXPENDITURES			
Current:			
General Government	$ 8,855,752	$ 9,476,695	$ 4,473,603
Public Safety - Police	10,004,017	10,034,017	4,965,186
Public Safety - Fire	11,346,547	11,732,458	5,550,243
Public Works	3,850,073	3,850,073	1,796,093
Economic Environment	2,578,663	2,578,663	1,368,747
Culture & History	20,000	20,000	-
Parks & Recreations	4,900,390	4,893,062	1,083,844
Capital Outlay:			
General Government	67,200	67,200	-
Public Safety - Police	73,000	73,000	-
Public Works	74,000	79,115	-
Culture & History	30,000	27,615	-
Parks & Recreations	42,000	42,000	-
TOTAL EXPENDITURES	**$ 41,841,642**	**$ 42,873,898**	**$ 19,237,716**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**$ (1,723,105)**	**$ (2,064,951)**	**$ 657,303**
OTHER FINANCING SOURCES (USES)			
Transfers In	$ 828,522	$ 866,821	$ 401,104
Miscellaneous	$ -	$ -	$ 9,800
Transfers Out	$ (4,513,559)	$ (1,117,559)	$ (557,179)
TOTAL OTHER FINANCING SOURCES (USES)	**$ (3,685,037)**	**$ (250,738)**	**$ (146,274)**
NET CHANGE IN FUND BALANCES	**$ (5,408,142)**	**$ (2,315,689)**	**$ 511,029**
PLUS: FUND BALANCES - BEGINNING	$ 7,251,266	$ 7,251,266	$ 7,251,266
FUND BALANCES - ENDING	**$ 1,843,124**	**$ 4,935,577**	**$ 7,762,294**

CITY OF TUMWATER

DEVELOPMENT FEES Special Revenue Fund - Budget and Actual

Schedule of Revenues, Expenditures, and Changes in Fund Balance

For the *Biennium* Ended December 31, 2013

	BEGINNING 2013-2014 BIENNIAL BUDGET	FINAL 2013-2014 BIENNIAL BUDGET	ACTUAL 2013 BIENNIUM-TO-DATE THRU 12/31/2013
REVENUES			
Charges for Services	$ 1,176,000	$ 1,176,000	$ 1,109,744
Miscellaneous	20,000	20,000	6,722
TOTAL REVENUES	**$ 1,196,000**	**$ 1,196,000**	**$ 1,116,466**
EXPENDITURES			
Current:			
General Government	$ -	$ -	$ -
Physical Environment	-	-	-
Transportation	-	-	-
Culture & Recreation	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	**$ -**	**$ -**	**$ -**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**$ 1,196,000**	**$ 1,196,000**	**$ 1,116,466**
OTHER FINANCING SOURCES (USES)			
Transfers Out	$ (876,100)	$ (876,100)	$ (745,246)
TOTAL OTHER FINANCING SOURCES (USES)	**$ (876,100)**	**$ (876,100)**	**$ (745,246)**
NET CHANGE IN FUND BALANCES	**$ 319,900**	**$ 319,900**	**$ 371,220**
PLUS: FUND BALANCES - BEGINNING	$ 4,866,888	$ 4,866,888	$ 4,866,888
FUND BALANCES - ENDING	**$ 5,186,788**	**$ 5,186,788**	**$ 5,238,108**

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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